HOUSING MARKET OUTLOOK
Saskatoon CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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NEW HOME MARKET

Housing starts to improve in 2010

[1]The CMHC forecast calls for 900 single-detached starts in 2009 followed by 1,000 in 2010. The 2009 production will be the lowest number of single starts since 2005 when there were 751 foundations poured.

The decline in single-detached starts in 2009 compared to 2008 is due to a number of factors, including managing a build-up in the supply of new housing units, consumer resistance to price escalation, and heightened competition from resale housing. Reduced in-migration and a moderating economy in 2009 have also played a role in this market adjustment.

At mid-year, single-detached starts

Figure 1

Source: CMHC, CMHC Forecast (f)

[1]The forecasts included in this document are based on information available as of October 1, 2009.

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were 65 per cent below the historically high 2008 figure for the same period. The slowdown in new construction has allowed the inventory of complete and unabsorbed units to decline and a stronger second half of production is expected. At the end of August, single-detached starts had recorded two consecutive months of year-over-year increases. Though there has been a recent uptick in starts activity, CMHC expects builders will limit production to prevent a rise in inventory.

In terms of total supply, there were more than 800 single-detached units under construction or completed but unoccupied at the end of August. While this is the third highest supply on record for the month of August, total supply has been in decline, on a year-over-year basis, since December 2008.

The bulk of single units in supply are those in various stages of construction. The units under construction have been declining on a year-over-year basis since October 2008. The decline in the units under construction figure is due to slower starts since June 2008. As stated, only recently have starts increased on a year-over-year basis.

The number of single units that are completed and unoccupied now lies at 142 units, up from 115 one year earlier. Though higher than last year at this time, the completed and unoccupied count has seen monthly declines since December 2008 when inventory peaked at 244 units.

To the end of August, there have been 757 single absorptions in 2009 compared to 819 at this time in 2008. Average absorption now stands at 95 units monthly compared to the 110 units absorbed monthly in 2008.

Competition from the resale market may be having an impact on new single absorption. Industry sources state that investors who purchased new homes in the previous two years are now creating competition for homebuilders by listing their homes on the resale market at competitive prices.

City of Saskatoon captures higher proportion of starts in 2009

The city has captured a larger share of the total single starts in the Census Metropolitan Area (CMA) this year indicating that builders are seeing a higher demand for in-town units than last year.

So far this year, the city has captured 65.6 per cent of total single starts. At this time in 2008, 63.4 per cent of single starts were within the city limits. Over the last five years, the city has seen an average of 62 per cent of single starts fall within its boundaries. Single starts in Saskatoon's bedroom communities have fallen 48.1 per cent in the first eight months compared to that time last year while the city has seen a 43 per cent decline.

The share of units within the city has fluctuated over the last few years due to the availability and price of developed land. An abundant supply of land within city limits and competitive pricing has led to the city capturing a higher proportion of single starts in 2009.

Average price to see a modest increase in 2009 and 2010

CMHC's forecast for the average price of a new single-detached home is $386,000 in 2009, a 5.3 per cent rise from the 2008 annual figure. New house price gains will ease due to the rise in inventory levels and heightened competition from the resale market. Some builders have offered incentives and price reductions in order to liquidate their excess inventory in 2009. Provided inventories sufficiently decline, the average price will then see an uptick of one per cent in 2010.

At the end of the first eight months of 2009, the year-to-date average price of new single-detached homes was approximately $384,670, up nine per cent from one year earlier. Much of the increase occurred in the early part of 2009 and price gains have since slowed. Average price gains have shown signs of easing since November 2008 when year-over-year price growth peaked at 35 per cent.

Saskatoon New House Price Index decelerates in 2009 and 2010

Statistics Canada's New House Price Index (NHPI) measures the increase in the price of a house where the detailed specifications pertaining to each house remain the same between two consecutive periods. Given weaker construction volumes in 2009, increased competition from the resale market, and an abundant supply of newly completed homes, we forecast an eight per cent decline in the NHPI in 2009. Next year will see a small uptick of 1.5 per cent because of reduced supply and increased demand.

Multi builders adjust production to meet slower demand and high inventories

Multiple starts will decline by 81 per cent in 2009 to 200 units, the lowest number of multiple starts since 1995. The projected drop in multiple starts

is due to slower demand and historically high production in 2007 and 2008 that led to a build up in the supply of multi-unit dwellings. Builders are adjusting the pace of construction to correct this imbalance. Multi starts will double in 2010 reaching 400 units, as absorptions will have reduced supply and demand improves.

Through August, there have been 79 multiple starts in Saskatoon. This is a 91 per cent reduction in multiple starts activity compared to this time in 2008. No condominium apartment starts have taken place, indicating that builders have recognized the large stock of this type of project.

The 895 units started in 2007 followed by 1,031 multi starts in 2008 were the highest levels of production seen in Saskatoon since 1985. Completion of these units is proceeding quickly. In 2007, just over 448 units were completed and in 2008 a further 821 units were introduced to the market. Year-to-date 2009, 568 multi completions have taken place.

Multiple absorptions, especially apartment condominium absorptions, have been relatively slow. In 2007, for example, apartments were absorbed at a rate of 17 units monthly while 2008 saw monthly absorptions of 20 units, on average. In 2009, absorptions have dropped off to an average of just under 16 units monthly. Demand is slower due to lower investor demand and consumer reaction to the price escalation that developed in 2007 and 2008.

With the combination of high volumes of multi starts in 2007 and 2008 and lower absorptions, the supply of multiple units is close to the historical high. In 2008, the average monthly supply was the highest ever on record, while the 2009 average monthly supply is close to that level. Apartment units form the bulk of this elevated supply.

The largest component of supply is comprised of units under construction. The number of multiple units under construction peaked at 1,438 units in September 2008, but has been in decline since then. At the end of August, the multiple units under construction figure stands at 705 units, down 49 per cent from August 2008. Most of these units at various stages of construction are apartments.

The other part of the supply equation consists of completed and unoccupied units. The number of completed and unoccupied units of all types reached the highest point on record in August with 194 units awaiting sale compared to only 12 units one year earlier. Again, apartment style condominiums form the largest component of this element of supply.

There have been reductions in the supply of all types of multiple units in recent months suggesting that builder's efforts to cut back on production are having an impact. We expect much of this excess supply to clear by the beginning of 2010, supporting our forecast for an increase in multiple starts next year.

RESALE MARKET

MLS® sales recover in 2009 and increase again in 2010

Saskatoon resales are on pace to reach 3,700 units this year, a 4.5 per cent increase over the 3,540 units sold in 2008. In 2010, there will be a further 5.4 per cent uptick, bringing resale volumes to 3,900 units. The increase in 2009 is due to a wide choice of listings in desirable price ranges, low mortgage rates, and a slower pace of price gains compared to 2007 and 2008. Rising rents have led to a narrower spread between renting and owning. Moderate, but sustained, job growth in 2009 and 2010 will further support housing demand by increasing income and encouraging in-migration, albeit at a slower pace than 2007 and 2008.

Sales declined in 2008, reaching 3,540 sales compared to 2007's historically high 4,446 sales. In 2007, there was a surge in buying and limited supply resulted in a bid up of prices. These price gains were too rich for many homebuyers who postponed homeownership in the hope of price declines. Now that the market has settled down to a slower pace, these buyers are returning to the market.

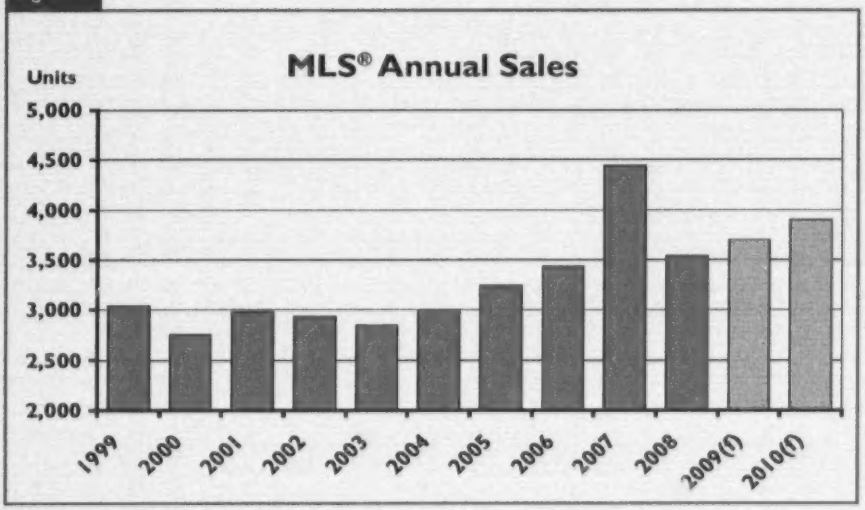
In support of our forecast, current seasonally adjusted sales are up 4.2 per cent on a month-over-month basis. Monthly seasonally adjusted sales have been trending up since December 2008. Actual year-to-date figures are behind only one per cent, or 29 sales, compared to August 2008.

Slower price gains leading to fewer new listings

Double-digit price increases in the previous two years resulted in additional listings that were initially absorbed by the market. Sales slowed and the inventory of listings swelled to historically high levels, peaking in May 2009 at almost 2,750 active listings. Consumers returned to the market in early 2009 as this large inventory of resale housing offered buyers more choice and competition between sellers. This resulted in slower price gains and encouraged more sales to take place.

Slower price gains are causing the pace of new listings to dampen. The

Figure 2



Source: CREA, CMHC Forecast (f)

new listings trend is off 5.1 per cent on a seasonally adjusted monthly basis and year-to-date raw numbers indicate a 17 per cent reduction in new listings from the previous year. Seasonally adjusted new listings have been declining each month since the beginning of the year.

An uptick in sales and a slower pace for new listings have caused the inventory of active listings to decline to 2,346 listings in August. This is on par with the previous year, yet is still high by historical standards. Nonetheless, it is the third consecutive monthly decline this year. This is an indication that active listings are moving to a level more in line with current demand.

With sales on the rise and listings trending down, the sales-to-active listings ratio is trending upward. The seasonally adjusted ratio has risen on a monthly basis for the last six months. Although the ratio is rising, this market characteristic is still indicative of a buyers' market. Increasing sales and falling listings will result in a continuing trend toward a balanced market in the coming months.

Average resale price to slip in 2009 and rise in 2010

CMHC's forecast calls for the average MLS® price to decline to $280,000 in 2009, a 2.7 per cent reduction from the 2008 annual figure. An elevated level of active listings and buyer resistance to higher prices at the end of 2008 and beginning of 2009 has resulted in the reduction in average price. However, an improving market balance has lifted the monthly average price from its low in March 2009. In 2010, average price will see a modest gain of 2.1 per cent.

To the end of August, the year-to-date average price was $278,312, down 3.7 per cent compared to last year at this time. Although there was a small jump in February 2009, the year-to-date average selling price peaked at $289,710 in September 2008. The seasonally adjusted average price has been trending up monthly since June. This supports our forecast of an improvement through the balance of 2009, followed by modest price growth in 2010.

Part of the decline in average price has come about through a shift toward lower priced homes. Listings surged in late 2008 and early 2009, increasing the availability of lower priced units. The proportion of total sales captured by homes in the $150,000 to $250,000 price range has increased, as have the proportion of total sales in the $300,000 to $350,000 range. On the other hand, homes selling at the highest price points have lost market share.

RENTAL MARKET

Average vacancy rate inches up

The apartment average vacancy rate in Saskatoon will increase slightly to two per cent in October 2009 and rise further to three per cent in 2010. Rents have risen sharply in the last three years causing renters to double up to offset rising rents. Condominium investments used as secondary rental suites are also providing some indirect competition to Saskatoon's rental property owners, especially in the highest rent ranges.

Notwithstanding these negative factors, the Saskatoon economy remains strong relative to other Prairie cities. As a result, the city captures a large share of provincial in-migration. Employment gains in the part-time job category would suggest more household formation in the lower income ranges. Rental housing is the most affordable housing option. In addition, the construction sector is seeing significant investment and these workers tend to prefer short-term accommodation.

There have been few condominium conversions in the past year. City policy restricts these types of investments in lower vacancy conditions. There have been few additions to supply in the form of new rental units.

On balance, these positive and negative factors will result in a slight increase in average vacancy in 2009 and 2010.

Increases in average monthly rent to ease in 2009 and 2010

The average rent for a two-bedroom apartment will rise to $875 in the October 2009 rental market survey. This is a $34 increase in the average monthly rent compared to the October 2008 survey. This is considerably more subdued than the rent increase recorded between 2007 and 2008, when average monthly rent increased by $148. In the face of rising vacancies, marginal rent increases will continue in 2010, with the average rent for a two-bedroom apartment rising to $880 per month.

Rent increases have slowed because tenants are moving to homeownership in increasing numbers. Rents have increased steeply and resale price gains have lessened, causing the difference in monthly expenditures between renting and ownership to become smaller. Furthermore, some property managers have advised that their increases may have "overshot" market rent and they will be holding rent at present levels or adjusting rents downward in the next year. These factors support our forecast for a slower pace of rent escalation.

ECONOMIC OUTLOOK

Employment in Saskatoon is on pace to grow by three per cent in 2009 and is expected to rise by two per cent in 2010. CMHC's forecast calls for increased employment in 2009 compared to the 2008 figure, but below the robust performance seen in 2007 when employment gained 5.9 per cent. The global economic recovery and rising commodity prices will help lift Saskatoon employment in 2010, although employers will be cautious with new hiring.

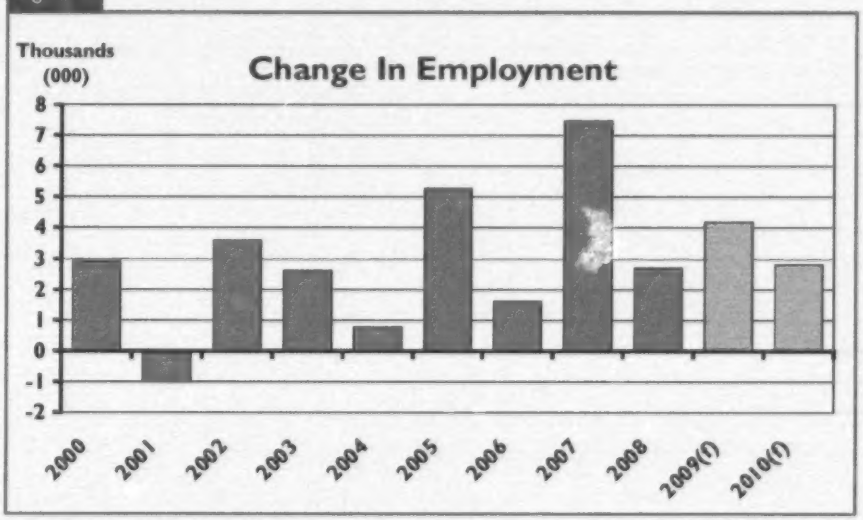
The city services the potash mines in central Saskatchewan and uranium mining in the north. Currently, average weekly earnings relating to the mining, oil and gas sector are down significantly. Manufacturing employment has also fallen off. Further, wholesale and retail trade employment has declined with weaker residential construction although the Federal renovation program has helped to buoy this sector.

Government and private investment will play a major role in sustaining economic growth going forward. Saskatoon is seeing major capital projects beginning this year related to transportation, health, and education infrastructure. A major retail mall development is also underway. Investments in agricultural and medical research are also taking place.

New building projects will benefit from the relative surplus of workers resulting from the residential construction slowdown. The 2007 and 2008 surge in construction resulted in a scarcity of skilled workers and wages escalated rapidly. This year, pressure on the labour supply has eased, as the total value of building permits has been lower since February.

Job growth in part-time positions has captured the majority of job gains in 2009. After eight months, there were 2,700 part-time jobs gained compared to 1,900 full-time jobs. Employers will hire full-time employees as the economic recovery becomes more entrenched.

Figure 3



Source: Statistics Canada, CMHC Forecast (f)

Migration will moderate from the estimated peak of 5,300 persons in 2008 to 4,800 in 2009 but rise to 4,900 persons in 2010. Migration will decline in 2009 due to rising unemployment and the steep escalation in housing costs experienced in recent years. Notwithstanding this decline, Saskatoon will still draw migrants due to its relatively favourable economic performance compared to many other centres. Further, Saskatoon will capture a share of the rising international migration to the province. This will ensure sustained levels of housing demand in the forecast period.

MORTGAGE RATE OUTLOOK

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

Forecast Summary Saskatoon CMA Fall 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	3,430	4,446	3,540	3,700	4.5	3,900	5.4
MLS® New Listings	4,637	5,816	8,141	6,600	-18.9	6,500	-1.5
MLS® Average Price ($)	160,577	232,754	287,803	280,000	-2.7	286,000	2.1
New Home Market							
Starts:							
Single-Detached	959	1,485	1,288	900	-30.1	1,000	11.1
Multiples	537	895	1,031	200	-80.6	400	100.0
Starts - Total	1,496	2,380	2,319	1,100	-52.6	1,400	27.3
Average Price ($):							
Single-Detached	239,365	272,802	366,526	386,000	5.3	391,000	1.3
Median Price ($):							
Single-Detached	219,687	256,568	354,765	374,000	5.4	380,000	1.6
New Housing Price Index (% chg.)	9.1	38.8	20.6	-8.0	-	1.5	-
Rental Market							
October Vacancy Rate (%)	3.2	0.6	1.9	2.0	-	3.0	-
Two-bedroom Average Rent (October) ($)	608	693	841	875	-	880	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-	3.83	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-	5.75	-
Annual Employment Level	128,000	135,500	138,200	142,500	3.1	145,500	2.1
Employment Growth (%)	1.3	5.9	2.0	3.1	-	2.1	-
Unemployment rate (%)	4.4	4.0	4.0	4.9	-	5.2	-
Net Migration [1]	2,584	5,216	5,300	4,800	-	4,900	

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2008 migration data is estimated

The forecasts included in this document are based on information available as of October 1, 2009.

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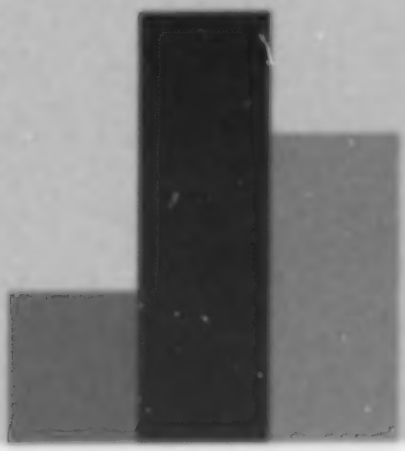

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